

## Message Text

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PAGE 01 BONN 08250 031745Z  
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02  
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 /096 W  
-----009424 040256Z /73

R 032117Z MAY 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 8241  
DEPARTMENT TREASURY  
WHITE HOUSE WASHDC  
INFO AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY LONDON  
AMEMBASSY BRUSSELS  
AMEMBASSY TOKYO  
AMEMBASSY OTTAWA

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USEEC, USOECD ALSO FOR EMBASSY  
WHITE HOUSE FOR OWEN

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCE MINISTER PREFERS MORE EXPENDITURES  
TO TAX CUTS FOR ECONOMIC STIMULATION

REF: BONN 8126

1. FINANCE MINISTER HANS MATTHOEFER HAS INDICATED IN  
A RADIO INTERVIEW A PERSONAL PREFERENCE FOR EXPANDING  
PUBLIC SECTOR EXPENDITURES OVER TAX CUTS FOR PROMOTING  
ECONOMIC GROWTH. HE TOLD A SAARLAND RADIO AUDIENCE  
ON APRIL 29 THAT HE, NONETHELESS, RULED OUT ANY NEW  
ECONOMIC STIMULATORY MEASURES FOR THE TIME BEING (AS  
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PAGE 02 BONN 08250 031745Z

HAVE CHANCELLOR SCHMIDT AND ECONOMICS MINISTER  
LAMBSDORFF). THESE REMARKS DREW NO NATIONAL ATTENTION  
UNTIL THE HANDELSBLATT REPLAYED THEM PROMINENTLY IN ITS  
MAY 3 EDITION.

2. MATTHOEFER ASSERTED THAT THE GOVERNMENT WOULD HAVE  
TO AWAIT THE ECONOMIC EFFECTS OF THE DM 11 BILLION TAX

CUT OF LATE 1977 AND ONGOING EXPENDITURE PROGRAMS (PRESUMABLY MEANING THE DM 16 BILLION INVESTMENT PROGRAM BEGUN IN EARLY 1977) BEFORE THE FRG COULD ADDRESS ITSELF TO POSSIBLE NEW STIMULATORY PROGRAMS. IF NEW STIMULATION WERE NEEDED, HIS PREFERENCE, HE SAID, WOULD BE FOR EXPENDITURE PROGRAMS WHICH GAVE A BOOST TO TECHNOLOGICAL INNOVATION AND THE DEVELOPMENT OF NEW PRODUCTS. "WE MUST GET OUT OF THIS DEFENSIVE POSITION WHICH WE HAVE HELD SO FAR, AWAY FROM A DEFENSIVE SUBSIDY STRATEGY, AND MOVE TOWARD AN ACTIVE INVESTMENT AND INNOVATION STRATEGY."

3. TURNING TO CDU/CSU AND FDP-BACKED DEMANDS FOR A REFORM OF THE INCOME TAX STRUCTURE'S PROGRESSIVITY, MATTHOEFER SAID THAT THAT QUESTION NEED NOT BE ADDRESSED BEFORE 1979 AND HE INDICATED, MOREOVER, THAT CHANGES IN THE TAX STRUCTURE WOULD, ON BALANCE, NOT NECESSARILY INVOLVE SIGNIFICANT TAX RELIEF. MATTHOEFER IMPLIED THAT HE DID NOT FIND THIS YEAR'S EXPECTED 1.4 PERCENT INCREASE IN TAX REVENUE FROM SALARY AND WAGE INCOME AN ONEROUS BURDEN, HENCE THAT ANY IMMEDIATE TAX RELIEF WAS CALLED FOR.

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4. COMMENT: CHANCELLOR SCHMIDT REPORTEDLY HINTED IN LIMITED OFFICIAL USE

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PAGE 03 BONN 08250 031745Z

A MAY 1 INTERVIEW (REFTEL) THAT HIS THOUGHTS ON EXPENDITURE VERSUS TAX POLICY WERE RUNNING IN THE SAME CHANNEL. NOT ONLY THE OPPOSITION CDU/CSU, BUT COALITION PARTY FDP AS WELL, HAVE A DECIDED PREFERENCE FOR TAX RELIEF PACKAGED WITH A REDUCTION IN THE INCOME TAX SYSTEM'S PROGRESSIVITY FOR THE MIDDLE-INCOME GROUP. ECONOMICS MINISTRY OFFICIALS CONCERNED WITH MACRO-ECONOMIC POLICY WITH WHOM WE HAVE BEEN IN TOUCH GENERALLY FEEL TAX REDUCTION/REFORM WOULD PROVIDE A MUCH QUICKER BOOST TO THE ECONOMY THAN WOULD NEW EXPENDITURE PROGRAMS GIVEN THE LAG BETWEEN PROGRAM PLANNING AND EXECUTION. ECONOMICS MINISTER LAMBSDORFF, GIVEN HIS CLOSENESS TO THE BUSINESS COMMUNITY, PRESUMABLY HAS AN IDEOLOGICAL PREFERENCE AS WELL FOR THE TAX POLICY METHOD OF STIMULATING THE ECONOMY. MUCH OF THE SPD, ON THE OTHER HAND, HAS A STRONG IDEOLOGICAL -- ALBEIT IN SOME CASES ECONOMIC -- BIAS AGAINST THE TAX SUBSIDY APPROACH, PARTICULARLY IF IT IS INTENDED TO STIMULATE BUSINESS INVESTMENT. END LIMITED OFFICIAL USE  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL STABILITY, ECONOMIC GROWTH, TAXES, GOVERNMENT EXPENDITURES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978BONN08250  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780189-0829  
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**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 BONN 8126  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 31 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCE MINISTER PREFERS MORE EXPENDITURES TO TAX CUTS FOR ECONOMIC STIMULATION  
**TAGS:** EFIN, GE, (MATTHOEFER, HANS)  
**To:** STATE TRSY  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014